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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

REAL ESTATE ACTIVITY

The real estate business picked up in January. While its 3.5-point gain (from 31.0 to 34.5) was hardly a record-breaker, it did mark a pleasant pause in the downward march that has prevailed since October 1950.

A summary of transfer information for 88 major communities as published in this month's Real Estate Analyst brings to light several interesting points. Real estate activity on a nationwide basis dropped 5% in 1951 as compared with 1950. Breaking down this average drop into regions, we found that the figures are as follows: New England-Middle Atlantic Region, down 2.7%; East Central Region, down 11.5%; South, down 8.5%; West Central Region, down 8.0%; Southwest Region, down 7.1%; Mountain Region, down 6.2%; and West Coast, down 1.0%. Only 11 cities showed increases in activity during this two-year span, and of this group, three registered almost imperceptible increases. The greatest increases were registered in Tucson, Arizona, with a figure of 12.4%. Grand Rapids, Michigan, followed, with a figure of 6.7%, followed by Kansas City, Missouri, 6.0%; Phoenix, Arizona, 5.0%; and San Jose, California, 4.5%.

The largest drops in activity, surprisingly enough, turned up in the South and Southwest Regions. Montgomery, Alabama, led with a drop of 32.2%, followed by Corpus Christi, Texas, 24.1%, and Nashville, Tennessee, 22.4%. In the Oklahoma City area, 19.5% fewer transfers were registered in 1951 than in 1950, while Tacoma, Washington, showed 18.8% fewer. This is somewhat surprising in view of the defense activity that has occurred in many of these communities.

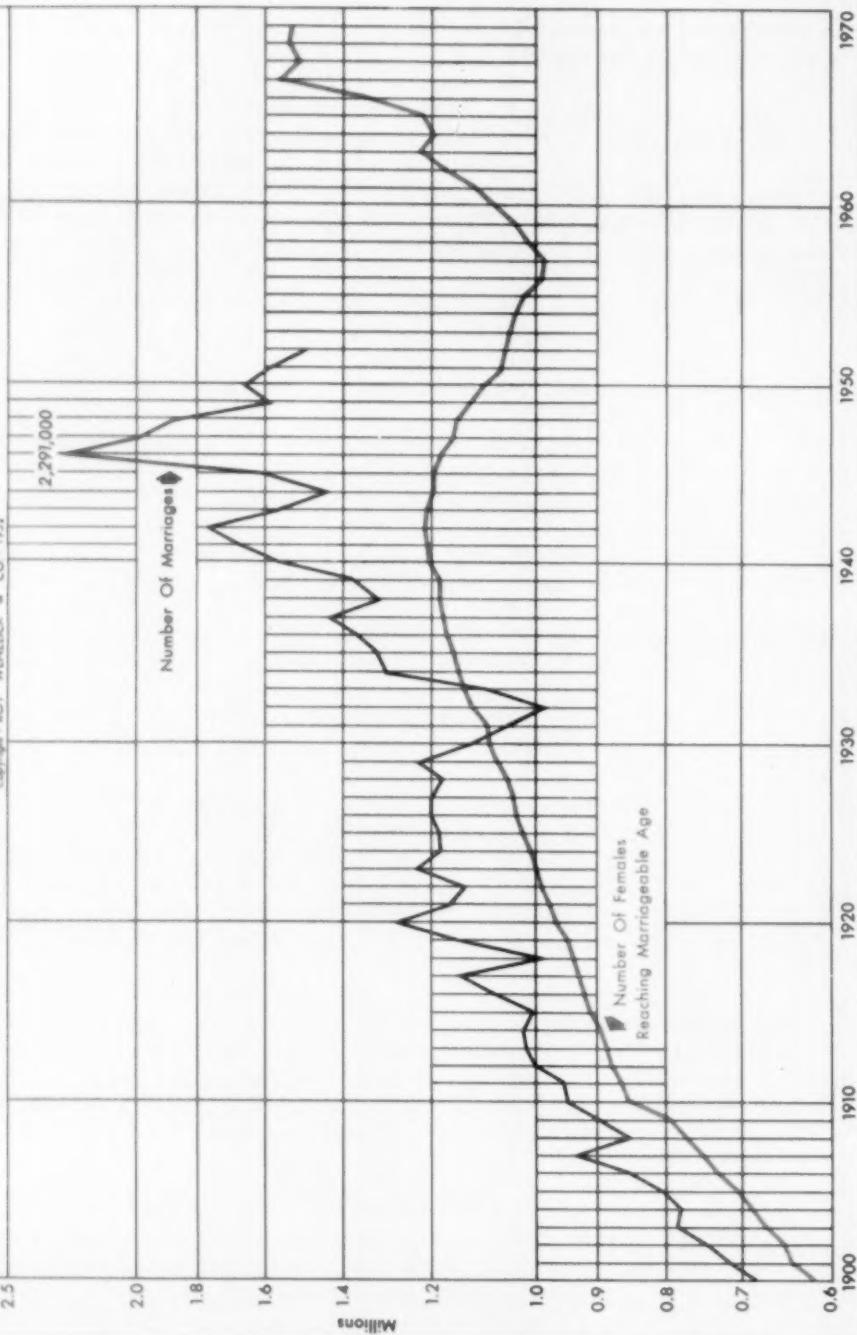
Frankly, we believe that real estate activity is going to keep going down for some time - probably until the late 1950's (and we tell you some of the reasons why on page 83). Nevertheless, this trip down will be slow and the bottom should be fairly shallow. Along more pleasant and more distant lines, it looks as if the next real estate boom, the one that's scheduled for some time in 1960, will be a great deal bigger than the one we are still enjoying.

REAL ESTATE MORTGAGE ACTIVITY

During January, mortgage activity continued the improvement it evidenced in December. While the mortgage business is not slated to regain the high levels of mid-1950, it should experience a very good year in 1952. As we point out later in this bulletin, we believe that the supply and demand situation in the real estate market will dictate prudent lending

NUMBER OF MARRIAGES COMPARED WITH THE NUMBER OF FEMALES REACHING MARRIAGEABLE AGE EACH YEAR, 1900-1970

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practices and we urge mortgagees not to be carried into questionable loans by the coming press of competition.

OTHER FACTORS

Sixty-eight thousand new dwelling units were started in the month of January. This represents an increase of 6% for private builders over December, as 3,200 units were initiated by the public housers. On the other hand, this is approximately a 21% drop over the number started in January 1951. The residential rent index continued its "tortoise-like" march upward, but at that is still way behind the "hare" - construction costs - which is now digressing from the race, showing a few slight reductions over the past several months.

THE DEMAND FOR NEW HOUSING

HERE are several reasons to expect residential construction activity and real estate activity to remain in a downward trend for the next several years. The real estate and construction cycles do not operate automatically. Anyone who studies these cycles can name the factors that operate behind the scenes to bring about changes in real estate and construction activity. Briefly, they are: (1) supply of housing; (2) demand for housing; (3) availability or ease of credit; and, to some extent (4) the level of residential rents.

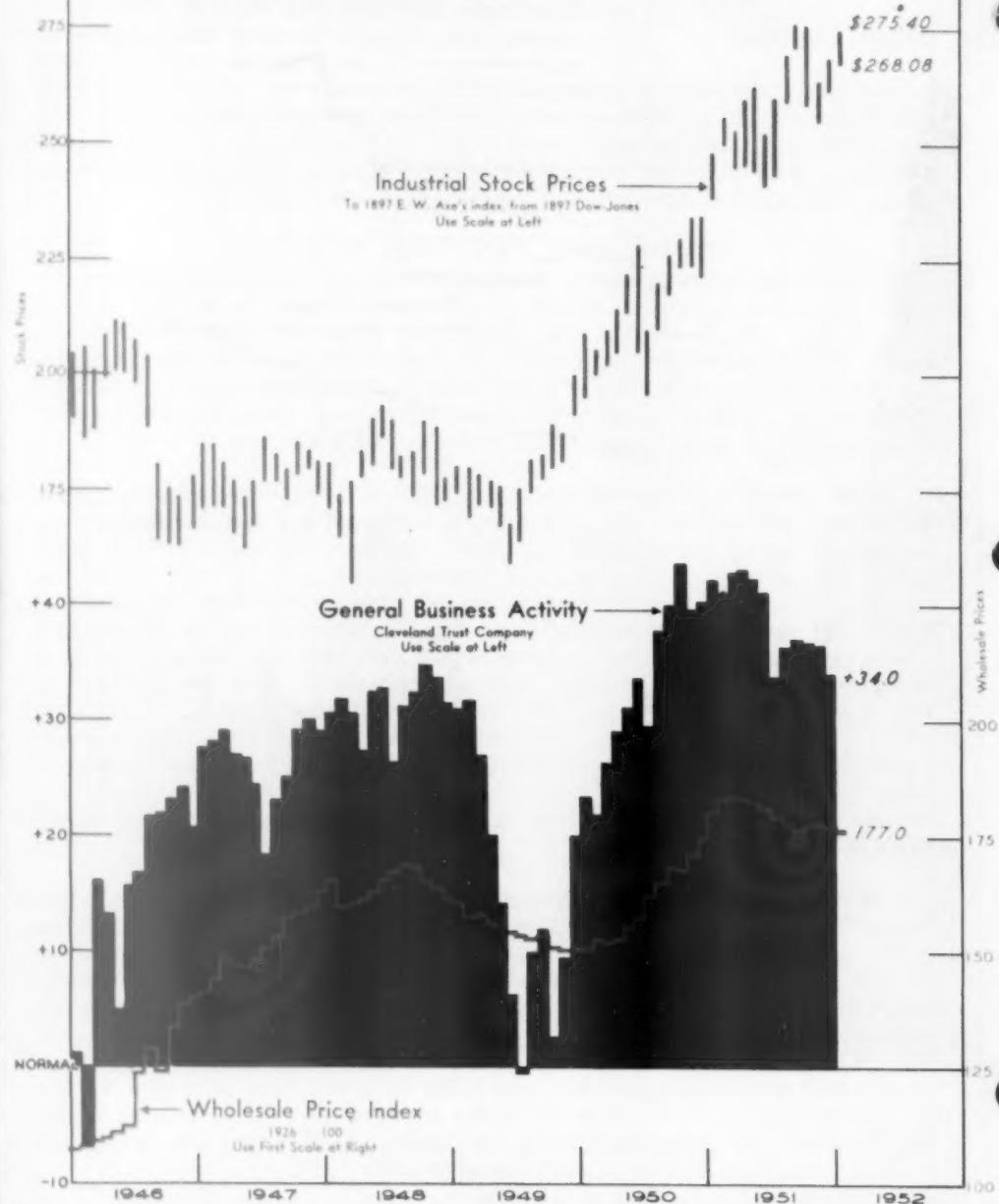
At this time we are particularly concerned with the first two factors, supply and demand. Most of us are quite familiar with what has been taking place on the supply side for the past several years. We know that since 1940 we have added, through conversion and new construction, something over 12 million dwelling units to our nonfarm housing supply. Most of us think, despite what Washington may say, that approximately 800,000 new units will be started this year, plus an unknown number of conversions. Very little attention has been paid to the demand side of the equation. A good many brokers and residential builders have apparently assumed that, while the unprecedented peaks of the past few years could not be maintained, a very substantial volume of brokerage and construction business would be forthcoming for a long time. So far they have been right, but the signs now point toward an unavoidable redress in the supply and demand relationship with an accompanying decline in activity of both real estate sales and construction volume.

We have already mentioned the tremendous increase in the number of residential units. While the figure is impressive, it is meaningless without some indication of the demand factor. This factor derives most of its strength from the formation of new families. The greater the number of new families formed, the greater will be the demand for housing (providing, of course, there are means of financing this demand).

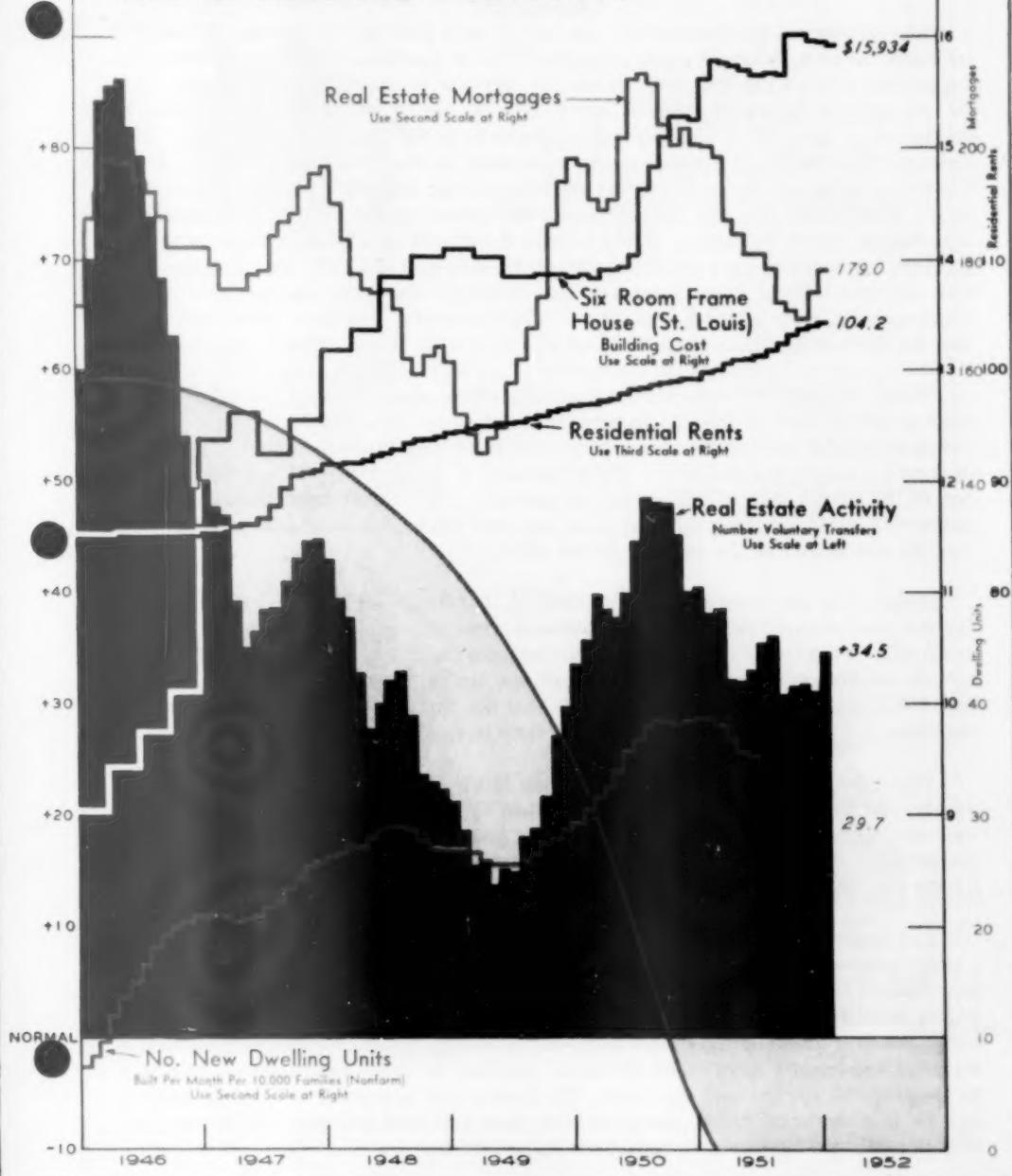
In order to show you what has been going on in this field, and what (within reasonable limits) may be expected within the next few years, we have drawn the chart opposite. This chart shows the number of marriages that have taken

(cont. on page 86)

GENERAL BUSINESS ACTIVITY



REAL ESTATE ACTIVITY



(cont. from page 83)

place in the United States from 1900 to the present, and the number of females reaching (and that will reach) marriageable age from 1900 to 1970.

The number of marriages that take place each year is, of course, influenced by many factors, most of them unforeseeable or immeasurable. Notice the irregularity of the blue line that shows the number of marriages. The big jump in 1917 was brought on by World War I, and the big dip in 1918 was the result of the fact that very many eligible males were in army camps or overseas. The drop in 1921-1922 was caused by the recession in the latter part of 1920, while the tremendous sag in the early thirties was caused, naturally, by the Big Depression. More recently, the recession of 1938 caused another dip in the number of marriages, while the advent of World War II brought on a considerable increase. In 1946, as most of the armed forces returned to civilian life, the all-time peak was reached. Since then, the trend in marriages has been sharply downward, interrupted briefly by the Korean War. This recovery, however, was short-lived and the decline continued in 1951 (and will continue, in all probability, in 1952).

Thus, we see that wars and business conditions exercise as profound an influence on marriages as they do on most other things. To a great extent, wars and business conditions are unpredictable, or at least they cannot be predicted in point of time by most business men. Nevertheless, it is relatively simple to forecast one of the prime factors influencing the number of marriages, and that factor is the number of girls reaching marriageable age each year. We have done this, and the results are shown by the red line on the chart.

Notice how the number of girls reaching marriageable age has been dropping for the past several years. This downward trend will not reach bottom until 1956 and 1957. That being the case, and barring stimulation by a major war, the number of marriages seems certain to continue its decline until some time in the late 1950's. Therefore, it is our belief that the demand for housing will likewise continue in a downward trend until some time in the late 1950's.

The depressing influence of slackening family formation will undoubtedly be reinforced by certain factors and alleviated by others. Any decline in general business is certain to add to the downward pressure caused by dropping family formation. On the other hand, easier government-insured, guaranteed or direct credit can help alleviate or counteract the effects of the naturally declining demand.

The real estate market and particularly the market for new homes has reached a point where supply is nearly balanced by demand. Since the demand seems certain to continue to move down, it is reasonable to expect home building and real estate activity to also move downward for the next few years. This does certainly not mean that home building will stop, nor that real estate activity will return to the lean and hungry days of the thirties. Neither of these catastrophes is likely to happen, but for the next few years, the most potent generator of housing demand will be in a declining trend, and grandiose plans and rosy optimism had better give way to realistic listings and aggressive sales efforts.

INCREASES IN BUILDING COSTS SINCE 1939

(SAINT LOUIS)
February 1952



SIX-ROOM BRICK HOUSE

(FRAME INTERIOR)*

Content: 23,100 cubic feet
1,520 square feet

Cost 1939: \$ 6,400
(27.7¢ per cubic foot; \$ 4.21 per square foot)

Cost today: \$16,864

(73.0¢ per cubic foot; \$10.95 per square foot)

INCREASE OVER 1939 = 163.5%



FIVE-ROOM BRICK VENEER HOUSE*

Content: 24,910 cubic feet
1,165 square feet

Cost 1939: \$ 5,440

(21.8¢ per cubic foot; \$ 4.67 per square foot)

Cost today: \$14,512

(58.3¢ per cubic foot; \$12.46 per square foot)

INCREASE OVER 1939 = 167%



SIX-ROOM FRAME HOUSE*

Content: 24,288 cubic feet
1,650 square feet

Cost 1939: \$ 5,671

(23.4¢ per cubic foot; \$3.44 per square foot)

Cost today: \$15,934

(65.6¢ per cubic foot; \$9.66 per square foot)

INCREASE OVER 1939 = 181%



6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT

Content: 12,119 cubic feet
992 square feet

Cost 1939: \$3,117

(25.6¢ per cubic foot; \$3.14 per square foot)

Cost today: \$8,475

(69.9¢ per cubic foot; \$8.54 per square foot)

INCREASE OVER 1939 = 172%

*Costs include full basement.

INCREASES IN BUILDING COSTS SINCE 1939

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COMMERCIAL BUILDING - NO BASEMENT

Content: 115,850 cubic feet
8,075 square feet
Cost today: \$50,832
(43.9¢ per cubic foot; \$6.29 per square foot)



30-UNIT REINFORCED CONCRETE APARTMENT*

Content: 303,534 cubic feet
21,372 square feet
Cost 1939: \$135,000
(44.5¢ per cubic foot; \$ 6.33 per sq. ft.)
Cost today: \$339,961
(\$1.12 per cubic foot; \$15.91 per sq. ft.)
INCREASE OVER 1939 = 151.8%



18-FAMILY BRICK APARTMENT (FRAME INTERIOR)*

Content: 168,385 cubic feet
13,260 square feet
Cost 1939: \$ 60,300
(35.8¢ per cubic foot; \$ 4.55 per sq. ft.)
Cost today: \$159,673
(94.8¢ per cubic foot; \$12.04 per sq. ft.)
INCREASE OVER 1939 = 164.8%

*Costs include full basement.